

Message Text

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16

ACTION NEA-10

INFO OCT-01 EUR-12 EA-06 IO-10 ISO-00 AGR-05 CEA-01

CIAE-00 COME-00 DODE-00 EB-07 FRB-03 H-02 INR-07

INT-05 L-03 LAB-04 NSAE-00 NSC-05 PA-01 AID-05

CIEP-01 SS-15 STR-04 TAR-01 TRSE-00 USIA-06 PRS-01

SP-02 OMB-01 FEA-01 /119 W
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R 011250Z AUG 75

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 347

INFO AMCONSUL BOMBAY

AMCONSUL CALCUTTA

AMCONSUL MADRAS

AMCONSUL KARACHI

AMCONSUL LAHORE

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COLOMBO

AMEMBASSY COPENHAGEN

AMEMBASSY DACCA

AMEMBASSY THE HAGUE

AMEMBASSY ISLAMABAD

AMEMBASSY KATHMANDU

AMEMBASSY LONDON

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

AMEMBASSY VIENNA

USMISSION USUN NEW YORK

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EO 11652: NA

TAGS: EAID, ETRD, IN

SUBJ: INDIA'S EXTERNAL ECONOMIC SITUATION AND
PROSPECTS FOR EXTERNAL ASSISTANCE

SUMMARY: INDIA'S EXTERNAL ECONOMIC PROSPECTS THIS YEAR LOOK FAIRLY GOOD. EXPORT EARNINGS ARE EXPECTED TO EXPERIENCE A MODEST INCREASE, PARTICULARLY FOR SUCH ITEMS AS SUGAR AND ENGINEERING GOODS. COUNTRY'S IMPORT BILL FOR POL PRODUCTS WILL CONTINUE TO GROW -- WITH OTHER IMPORTS STAGNANT. BILATERAL AND MULTILATERAL AID MAY COVER BALANCE OF PAYMENTS GAP THIS FISCAL YEAR. END SUMMARY.

1. GOI SPOKESMEN ARE TAKING THE PUBLIC LINE THAT INDIA SHOULD NOT HAVE ANY SERIOUS BALANCE OF TRADE OR PAYMENTS DIFFICULTIES THIS FISCAL YEAR. STRANGELY ENOUGH WE (AND THE WORLD BANK) AGREE WITH THEIR ASSESSMENT OF THE SITUATION, PRIMARILY BECAUSE OF AN EXPECTED INCREASE IN EXPORTS AND SUFFICIENT NET INFLOW OF ASSISTANCE THAT MAY JUST ABOUT OFFSET DEFICIT IN THE CURRENT ACCOUNT.

2. INDIA'S EXPORTS IN IFY 1974-75 TOTALED ALMOST \$4.1 BILLION, OF WHICH EXPORTS OF SUGAR, ENGINEERING GOODS, AND COTTON TEXTILES CONSTITUTED ALMOST 10 PERCENT EACH OF TOTAL. WE EXPECT THESE SAME ITEMS TO BE INDIA'S LEADING FX EARNERS IN IFY 1975-76. GOI HAS SET AN EXPORT TARGET OF APPROXIMATELY \$4.4 BILLION THIS YEAR. IN OUR VIEW THIS GOAL IS POSSIBLE AND MAY ALMOST BE MET.

3. GOI CONTINUES TO PLACE HIGH PRIORITY ON EXPORT EXPANSION. FOR EXAMPLE, IT HAS SET UP HIGH-POWERED CABINET COMMITTEE ON EXPORT PROMOTION. ALSO, FINANCE MINISTER SUBRAMANIAM HAS SAID THAT BANK CREDIT TO EXPORTERS IS NOW BEING TREATED AS A PRIORITY SECTOR AND THAT PROCEDURES REGARDING EXPORTS ON DEFERRED PAYMENT TERMS HAVE NOW BEEN SIMPLIFIED. HE THOUGHT THAT INDIA'S COMPETITIVENESS IN WORLD MARKETS IS LIMITED OFFICIAL USE

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ENHANCED BY ITS INCREASING PRODUCTION OF SOPHISTICATED PRODUCTS FOR EXPORT, STEEP INCREASES IN WAGE COSTS OF DEVELOPED NATIONS, AND CURRENT LOW INFLATION RATE HERE (NOT TO MENTION EXCESS CAPACITY IN INDUSTRIAL SECTOR). WE BELIEVE THAT THESE FACTORS WILL MEAN GROWTH IN VOLUME AND VALUE OF INDIAN EXPORTS.

4. VALUE OF INDIAN IMPORTS IN IFY 1975-76 WILL DEPEND

ALSO CONSIDERABLE EXTENT ON INTERNATIONAL PRICES. IN GENERAL, ACTUAL QUANTITIES OF IMPORTS WILL PROBABLY REMAIN ABOUT THE SAME AS LAST YEAR, EXCEPT FOR SOME RAW MATERIALS THAT MAY BE LOWER BECAUSE OF SLACK DOMESTIC DEMAND. THE VALUE OF POL IMPORTS WILL LIKELY CONTINUE THEIR UPWARD TREND, PARTICULARLY IF THERE IS ANOTHER OIL PRICE RISE LATER THIS YEAR. FOOD AND FERTILIZER IMPORTS IN DOLLAR TERMS MAY DECLINE SOMEWHAT (COMPARED TO LAST YEAR) IN VIEW OF CURRENTLY LOWER WORLD PRICES OF THESE ITEMS. THE GOI IS NOW ESTIMATING TOTAL IFY 1975-76 IMPORTS AT \$5.9 BILLION, AND THE WORLD BANK HAS RECENTLY ACCEPTED THIS FIGURE. WE BELIEVE THAT IMPORTS MAY BE AROUND \$5.7 BILLION. THIS WOULD LEAVE A BALANCE OF TRADE DEFICIT OF APPROXIMATELY \$1.4-1.5 BILLION.

5. GOVERNMENT OFFICIALS HAVE EXPRESSED SATISFACTION ABOUT RESULTS OF LATEST PARIS CONSORTIUM MEETING, ALTHOUGH IT REMAINS TO BE SEEN EXACTLY HOW THESE COMMITMENTS WILL BE TRANSLATED INTO ACTUAL ASSISTANCE. SEVERAL RECENT AID DEVELOPMENTS ARE NOTEWORTHY. AS PART OF ITS 1974-75 COMMITMENT UK WILL PROVIDE \$80 MILLION TO FINANCE IMPORTS OF BRITISH EQUIPMENT FOR NEW FERTILIZER PLANTS (AT MANGALORE AND THE ONE PROPOSED FOR KAKINADA); EQUIPMENT FOR ELECTRICAL POWER PROJECTS; AND OTHER CAPITAL GOODS. IMF HAS AGREED TO SECOND OIL FACILITY FUNDING FOR INDIA AMOUNTING TO APPROXIMATELY \$250 MILLION. ALSO, DENMARK IS MAINTAINING ITS \$45 MILLION AID PROGRAM FOR THE 1974-79 PERIOD.

6. LOOKING AT OVERALL BALANCE OF PAYMENTS SITUATION FOR IFY 1975-76, INFLOW OF NET ASSISTANCE MAY BE ALMOST LIMITED OFFICIAL USE

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ENOUGH TO COVER EXPECTED DEFICIT IN CURRENT ACCOUNT. INDIA'S GROSS INTERNATIONAL RESERVES HAVE GONE DOWN BY APPROXIMATELY \$140 MILLION BETWEEN END MARCH 1975 AND END JUNE 1975 (THE FIRST QUARTER OF IFY 1975-76). HOWEVER, ACCORDING TO OUR VERY PRELIMINARY ESTIMATES, INDIA MAY NOT NEED TO DRAW DOWN ITS INTERNATIONAL RESERVES ANY MORE THIS FISCAL YEAR FROM THE END JUNE

1975 LEVEL OF \$1,238 MILLION, OR \$618 MILLION NET OF BORROWING FROM THE IMF.
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